

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: BEXP FR
SUBJECT: NUMBER TWO FRENCH AUTOFIRM PEUGEOT CITROEN
WILL BECOME EUROPE'S NUMBER ONE IF PROPOSED PURCHASE
OF CHRYSLER'S EUROPEAN SUBSIDIARIES GOES THROUGH.

1. PEUGEOT CITROEN WILL PURCHASE THE MAIN EUROPEAN
PRODUCTION OPERATIONS OF CHRYSLER (FRANCE, BRITAIN,
SPAIN) ACCORDING TO AUGUST 11 PRESS ACCOUNTS. THESE
REPORTS WERE CONFIRMED TO THE EMBASSY BY THE AMERICAN
PRESIDENT OF CHRYSLER FRANCE, JOHN DAY. IF THE DEAL
GOES THROUGH IT WILL MAKE PEUGEOT CITROEN THE LARGEST
EUROPEAN AUTOMOBILE AND TRUCK MANUFACTURER. ACCORDING TO
FIGARO, ADDING CHRYSLER'S 1977 PRODUCTION OF 774,000 TO
PEUGEOT-CITROEN'S 1,518,000 YIELDS A TOTAL OF 2,290,000
WHICH SLIGHTLY EXCEEDS THE PREVIOUS FRONT RUNNER
VOLKSWAGON-AUDI-NSU AHEAD OF THE STATE OWNED
RENAULT'S TOTAL OF 1,793,000.

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2. AT PRESENT, ACCORDING TO DAY, THE DEAL IS A HIGH
LEVEL AGREEMENT IN PRINCIPLE BETWEEN THE TWO COMPANIES,
SUBJECT TO APPROVAL BY GOVERNMENT AUTHORITIES OF EACH
COUNTRY AND FOR WHICH OPERATING DETAILS WILL HAVE TO
BE WORKED OUT SUBSEQUENTLY.

3. FOR EXAMPLE CHRYSLER HAS AGREED TO ASSIST IN MANAGEMENT OF ITS FORMER AFFILIATES BUT WHAT THIS MEANS IN PRACTISE WILL BE WORKED OUT LATER.

AS REPORTED IN THE PRESS AND CONFIRMED BY CHRYSLER, PEUGEOT CITROEN WILL GIVE \$230 MILLION IN CASH AND 15 OF ITS EQUITY IN EXCHANGE FOR THE MANUFACTURING FACILITIES IN FRANCE, GREAT BRITAIN AND SPAIN. CHRYSLER'S MOTIVATION IN SELLING WAS TO OBTAIN NEEDED CASH AND REDUCE MARGINALLY PROFITABLE OVERSEAS VENTURE IMPROVING ITS ABILITY TO RAISE FUNDS ON THE US CAPITAL MARKET.

4. THE DEAL HAS BEEN FAVORABLY RECEIVED IN FRANCE. THURSDAY EVENING TV NEWS MADE IT THE LEAD STORY EMPHASIZING THE RISE OF A FRENCH AUTOMOBILE COMPANY TO NUMBER 1 IN EUROPE AND THE POSSIBILITY OF PENETRATION OF THE US MARKET BY PEUGEOT. THE CONSERVATIVE DAILY FIGARO GAVE SIMILAR PROMINENCE AND SYMPATHETIC TREATMENT TO THE PROPOSED DEAL.

5. COMMENT: PEUGEOT-CITROEN HOPES OF PENETRATING THE US MARKET VIA THIS AGREEMENT ARE SOMEWHAT DOWN THE PIKE AS IT ONLY COVERS INDUSTRIAL FACILITIES NOT DISTRIBUTION NETWORK. CHRYSLER WILL RETAIN ITS DISTRIBUTION NETWORK IN EUROPE SO THERE WILL BE LESS INCENTIVE FOR THEM TO CREATE A DISTRIBUTION NETWORK LIMITED OFFICIAL USE

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FOR PEUGEOT IN THE USA.

6. HOWEVER WITH SO MANY MAJOR INDUSTRIES AILING (STEEL SHIPBUILDING, TEXTILES) THE FRENCH WILL WELCOME THE OPPORTUNITY TO FOCUS ON THE ACHIEVMENTS OF A SUCCESSFUL INDUSTRY.

7. IN CONNECTION WITH STATEMENTS BY BRITISH AUTHORITIES THAT THE DEAL WOULD HAVE TO BE CAREFULLY REVIEWED MR. DAY NOTED THAT AS FAR AS UK FIRMS ARE CONCERNED THE LEVEL OF EMPLOYMENT WOULD DEPEND ON THE PRODUCTIVITY OF THE UK WORKERS; PEUGEOT AND CHRYSLER WOULD NOT BE IN A POSITION TO GUARANTEE A CERTAIN LEVEL OF EMPLOYMENT TO ENSURE APPROVAL BY THE UK AUTHORITIES. HARTMAN.

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